

MEMORANDUM

November 24, 2008

TO: Michael J. Knapp, President
Montgomery County Council

FROM: Jennifer E. Barrett, Director
Department of Finance

SUBJECT: Early Alert Regarding Fiscal Pressures

The purpose of this memorandum is to provide to the County Council early information regarding the upcoming update of the County's Fiscal Plan and Finance's developing revenue estimates. While Finance has some still unanswered questions about the November income tax distribution, we believe that the trends and impacts noted above will result in a major write-down of revenue estimates that could exceed \$200 million for FY09 and FY10. This is in addition to the earlier projected gap of \$250 million.

This afternoon, Finance will brief the MFP Committee on the latest economic indicators, and will discuss very current information regarding the November income tax distribution from the State, which came in \$31 million lower than the estimate provided to the Council in September. As you may recall, the September estimates for the income, property, and transfer and recordation taxes were based on economic information and indicators through August. We noted at that time the update was very limited, including information for only two months of FY09, and was not based on any actual distribution information.

Since that time, we have experienced an unprecedented downturn in multiple sectors of the economy which will have severe, additional impacts on County revenues. Multiple economic trends are expected to have a significant impact on revenues. These include:

- Further weakening in income and employment, affecting income tax withholdings and the base going forward
- A 40% decline in the stock market which will affect capital gains reflected in estimated payments and late filings through at least FY2011

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- A decline in home sales and housing prices affecting capital gains and transfer and recordation taxes over a multi-year period
- A decline in investment income related to short term interest rates
- Declines in fuel energy taxes related to a decrease in consumption

Please note that the reduction in revenues of \$200 million for FY09 and FY10 noted above does not include further anticipated State Aid reductions. Compounding the local revenue trends is the parallel impact on State of Maryland revenues, which also include the State sales tax, and resulting State budget actions which will also negatively impact the County. Over the coming week, Finance and OMB will process this still developing picture and prepare an update to the Fiscal Plan, which will be presented to the County Council next Tuesday.

Based on the combination of State and other budget reductions with the revenue expectations expressed above, and the multi-year nature of the revenue declines, I believe the Council should be prepared for an at least doubling of the budget gap for FY10 over what has previously been discussed.

My staff and I look forward to briefing you on these matters next week.

cc: Isiah Leggett, County Executive
Duchy Trachtenberg, Chair, MFP Committee
Timothy Firestine, Chief Administrative Officer
Joseph Beach, Director, OMB
Stephen Farber, Council Staff Director
Kathleen Boucher, ACAO